

General Services Administration
Washington, D.C. 20417

CFO-IL-12-3, **Extended**
September 26, 2012, Extended on August 12, 2014

GSA INSTRUCTIONAL LETTER

SUBJECT: Accounting Policy and Procedures for Environmental Related Cleanup Costs

1. Purpose. This instructional letter (IL) supersedes the Office of the Chief Financial Officer (OCFO) issued CFO-IL-11-04, *Accounting Treatment for Environmental-Related Cleanup Costs*, dated August 24, 2011. It provides the General Services Administration (GSA) policy and procedures for the accounting and recording of environmental related cleanup costs for Property and Equipment (P&E). P&E are any property and equipment used in providing goods or services and includes land acquired for or in connection with other P&E. This letter provides definitions and guidance to properly identify, estimate, and record environmental related cleanup costs. This policy and the associated procedures apply to all environmental related cleanup costs including liabilities covered by current budgetary resources and liabilities not covered by current budgetary resources (i.e., future funded expenses). This policy and the associated procedures address the following topics:

- Environmental cleanup costs incurred related to GSA legally liable events;
- Estimated future costs required at the end of the P&E useful life (asset retirement) as a result of contamination for GSA legally liable events and corresponding incurred cleanup costs;
- Estimated future costs, required at disposal of equipment for GSA legally liable events as a result of contamination and corresponding incurred cleanup costs;
- Estimated future cleanup costs for asbestos-related (i.e., friable and non-friable) cleanup costs as a result of contamination for GSA legally liable events and corresponding incurred cleanup costs;
- Costs resulting from re-estimates of previously recorded environmental liabilities (re-estimates can result in higher or lower costs) and corresponding incurred cleanup costs;
- Environmental cleanup costs incurred related to government acknowledged events (GAE); and
- Costs associated with cleanup performed as part of ongoing operations and maintenance (O&M).

2. Background. As a Federal entity, GSA is required by the Chief Financial Officers Act of 1990 (Public Law 101-576) to prepare and report financial statements in accordance with Federal accounting standards as promulgated by the Federal

Accounting Standards Advisory Board (FASAB) and the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*. Refer to GSA CFO Manual, CFO P 4260.2, Volume 2, *Financial Reporting Requirements*, for financial statement footnote requirements pertaining to environmental cleanup costs.

According to the Statement of Federal Financial Accounting Standards (SFFAS) 6, *Accounting for Property, Plant, and Equipment*, GSA is required to recognize a liability for environmental related cleanup costs resulting from past transactions or events and when a future outflow or other sacrifice of resources is probable and reasonably estimable.

3. Clearance due date. This IL is effective immediately with the exception of asbestos accounting. The asbestos portions are effective on October 1, 2012. Comments are due 10 working days from the signature date.

4. Expiration date. This IL will remain in effect until amended or incorporated into the CFO P 4260.3, Volume 3, *Specific Policy and Procedures for Public Buildings Service (PBS)*, whichever is sooner.

5. Applicability. Provisions of this IL apply to all GSA organizations and key stakeholders that identify, evaluate, record, and/or disclose environmental related cleanup costs (i.e., estimated and incurred) that directly impact the financial reporting process.

6. Guidance.

a. SFFAS 5, *Accounting for Liabilities of the Federal Government*.

b. SFFAS 6, *Accounting for Property, Plant, and Equipment*.

c. FASAB Technical Release Number 2, *Determining Probable and Reasonably Estimable for Environmental Liabilities in the Federal Government*.

d. FASAB Technical Release Number 10, *Implementation Guidance on Asbestos Cleanup Costs Associated with Facilities and Installed Equipment*.

e. FASAB Technical Release Number 11, *Implementation Guidance on Cleanup Costs Associated with Equipment*.

f. FASAB Technical Release Number 14, *Implementation Guidance on the Accounting for the Disposal of General Property, Plant, & Equipment*.

g. Technical Bulletin 2006-1, *Recognition and Measurement of Asbestos-Related Cleanup Costs*.

7. Filing instructions. File in the CFO P 4251.1, *Chief Financial Officer Handbook*.

8. Attachment A. Accounting Policy for Environmental Related Cleanup Costs.

9. Attachment B. Accounting Procedures for Environmental Related Cleanup Costs.

10. Attachment C. Scenarios for Environmental Related Cleanup Cost Recognition.

11. Attachment D. Glossary of Accounting and Environmental Related Cleanup Costs Terms.

12. Contact information. If you have any questions about this policy, please contact Erik Dorman, Director, Financial Policy and Analysis at 202-501-4568 or by email at erik.dorman@gsa.gov.

/S/Gary Grippo
Acting Chief Financial Officer (B)

Attachment A

Accounting Policy for Environmental Related Cleanup Costs

This attachment provides specific policies addressing environmental liabilities and related cleanup costs for proper accounting treatment of environmental related cleanup costs.

1. Environmental cleanup costs are the costs of removing, containing, and/or disposing of: (1) hazardous waste from property; (2) material and/or property that consists of hazardous waste at permanent or temporary closure, or shutdown of associated Property and Equipment (P&E) (i.e., asset retirement and equipment disposal); or (3) asbestos (i.e., friable and non-friable). Cleanup costs may include characterization, decontamination, decommissioning, restoration, monitoring, closure, post closure, future surveys, studies, and assessments on the environmental site. Future surveys, studies, and assessments do not include initial survey costs to determine if a site has likely contamination because, as described below, it has not been determined that there is likely contamination. Therefore, the probable criterion of a future outflow has not been met. In addition, cleanup costs may include incremental direct costs of the remediation effort and costs of compensation and benefits for those employees who are expected to devote a significant amount of time directly to the remediation effort.

2. Environmental liabilities are future outflows or other sacrifices of resources for environmental related cleanup costs resulting from past transactions or events (e.g., contamination) when all of the following conditions are met:

a. Known contamination is present or likely to be present in the future;

b. The General Services Administration (GSA) is legally liable for the environmental related cleanup of the contamination. Events that are considered GSA legally liable include:

(1) Contamination of a non-Federal property caused by GSA operations (e.g., releases of hazardous waste or substances from GSA operations on an adjoining landowner's property);

(2) Contamination of a GSA property resulting from Federal operations, whether attributable to GSA or other Federal agencies; and,

(3) Contamination caused by Federal or non-Federal entities, which GSA is otherwise legally liable to cleanup under Federal, state, or local law, environmental regulations, court decisions, or any legally binding documents (also includes scenarios where GSA agreed to be liable for the necessary cleanup costs); and,

c. Future outflows or other sacrifice of resources for environmental related cleanup are probable and reasonably estimable. Probable refers to whether a future event or events are more likely than not to occur. Reasonably estimable refers to whether a future outflow or other sacrifice of resources is reliably quantifiable in monetary terms.

3. GSA will determine if the contamination should be classified as a government acknowledged event (GAE), which is a contamination caused by a non-Federal entity or a natural disaster. GAEs are non-transaction based events where GSA has no legal liability but could have an interest or responsibility to provide for employee's safety, the public's general welfare, or the environment and responds to the event after obtaining budgetary approval. These events may include the following:

- a. Contamination caused by natural disasters;
- b. Contamination of a GSA property caused by an adjoining, adjacent, or neighbouring non-Federal property owner;
- c. Contamination of a GSA property caused by a non-Federal third party over whom GSA has no control (e.g., so-called "midnight dumping" or accidental releases of contamination by transporters of hazardous materials);
- d. Contamination of non-Federal property, for which GSA provides voluntary cleanup to further Federal or public interest in accordance with Government Accountability Office (GAO) standards;
- e. Contamination encountered by GSA despite its efforts to limit its risks of contamination occurring, by engaging in effective due diligence of the property prior to acquisition, and by taking reasonable efforts to limit its liability by ensuring that the seller or lessor takes full responsibility for the presence of post-transfer discovered contamination in the structuring of the underlying purchase agreement or lease; and
- f. Other contamination, which is determined by GSA legal counsel to be classified as a GAE.

4. For environmental contaminations other than asbestos, GSA will exercise due care across all GSA owned assets (i.e., buildings, land, and equipment) to determine probable future cleanup costs. For asbestos contamination, GSA will exercise due care across GSA owned assets expected to contain asbestos to determine probable future cleanup costs. Due care should be exercised when conducting an initial assessment/estimation of the GSA assets or in the acquisition of new assets. GSA will also exercise due care on capital leased assets if GSA is legally liable for the environmental cleanup under the lease agreement. The GSA due care process will consist of a reasonable effort to identify the presence or likely presence of environmental contamination. A reasonable effort is exercised if GSA puts a process in place to routinely identify environmental contamination and forwards the information to the responsible GSA official.

5. GSA will determine if the contamination identified in the due care process are GSA legally liable events. Events that are considered GSA legally liable include:

a. Contamination of a non-Federal property caused by GSA operations (e.g., releases of hazardous waste from GSA operations onto an adjoining landowner's property);

b. Contamination of a GSA property resulting from Federal operations whether attributable to GSA or other Federal agencies; or

c. Contamination caused by Federal or non-Federal entities which GSA is otherwise legally liable to cleanup under Federal, state, or local law, environmental regulations, court decisions, or any legally binding documents (this also includes scenarios where GSA agreed to be liable for the necessary cleanup costs).

6. GSA will develop cleanup cost estimates for assets identified in the due care process that have environmental contamination, which are determined as GSA legally liable events and reasonably estimable. The reliability of cost estimates will be based on site specific studies, experience with similar sites or conditions, cost factors, and availability of remediation technology and should be based on current information, technology, and costs. If GSA is unable to estimate cleanup costs (i.e., no remediation technology is available), GSA will estimate the costs for containment of environmental contamination and the costs to complete the determination of a cleanup remedy. GSA will estimate environmental related cleanup costs for:

a. P&E (i.e., buildings, equipment, and land associated with other P&E) requiring immediate cleanup due to contamination, including friable asbestos that is not contained. Equipment that is attached to a building will be treated as part of the building for cleanup cost recognition purposes. The estimated cleanup costs will be recognized in full, as an environmental liability, in the period the contamination is identified.

b. P&E (i.e., buildings, equipment, and land associated with other P&E) not requiring immediate cleanup due to contamination, but is anticipated to be cleaned prior to or at the end of the asset's useful life, including non-friable and/or contained friable asbestos. These cleanup costs, commonly referred to as environmental related asset retirement and equipment disposal costs, represent future environmental liabilities and are the incremental portion of the cost to be incurred for the removal and special handling of the contamination above the normal retirement cost of the asset.

7. GSA will recognize estimated environmental cleanup costs as environmental liabilities in its financial statements for GSA legally liable events based on the following situations:

a. For future estimated cleanup costs (i.e., prior to or at asset retirement and equipment disposal), GSA will recognize cleanup costs evenly on an annual basis

over the accounting useful life of the asset, beginning on the date the asset is placed into service.

b. For assets with no accounting useful life or for assets requiring immediate cleanup due to contamination, GSA will recognize the total estimated cleanup costs as an environmental liability in the current period.

8. For land not associated with other P&E (i.e., buildings or equipment) and where the contamination is a GSA legally liable event, GSA will recognize a liability for the total estimated cleanup costs in the period when the contamination is identified. Land associated with other P&E will assume the useful life and the recognition methodology of the associated P&E.

9. For GSA legally liable events, GSA will periodically update estimates (i.e., re-estimates) for future cleanup costs due to changes in inflation or deflation, and changes in regulations, plans and/or technology. GSA will update estimates based on receipt of new information that could significantly affect cost estimates. GSA will recognize the portion of the re-estimated costs associated with the asset's expired accounting useful life in the current period. The costs associated with the unexpired useful life will be recognized equally on an annual basis.

10. GSA **will not capitalize**, under any circumstance, environmental cleanup costs, whether incurred or estimated, as these costs do not extend the useful life of the asset, or enlarge or improve the asset's capacity.

11. GSA **will not** estimate or recognize an environmental liability for the following situations:

a. Costs for conducting initial surveys, studies, or assessments to determine the likely presence of contamination at a property, which are not investigative and not characterizing a contaminant. These costs are incurred to determine whether a contamination exists, but do not determine whether the cleanup is probable or reasonably estimable; therefore, they do not meet the definition of a liability;

b. Assets that are fully remediated for environmental contamination in the current reporting period;

c. Assets identified to have environmental contamination but GSA has not determined that GSA is legally liable for cleanup; and

d. Estimated costs to purchase a new asset used to replace an asset removed due to contamination. These future costs are considered replacement costs and should not be comingled with environmental cleanup costs.

12. GSA **will not estimate or recognize** an environmental liability for GAEs. Recognition of an expense for the actual amount of cleanup costs incurred in the current period is all that is required. GSA will not recognize environmental liabilities

for the remainder of the obligation, if any, for services that have not been rendered (e.g., contractor has not performed cleanup).

13. GSA will not estimate or recognize an environmental liability for cleanup costs associated with cleanup performed as a routine part of ongoing operations and maintenance (O&M). Cleanup costs associated with activities that are part of the asset's routine preventative maintenance or day-to-day operations when the asset is operating as intended without defect are considered O&M costs. Recognition of an expense for the actual amount of O&M cleanup costs incurred in the current period is all that is required.

14. GSA will **not estimate or recognize** an environmental liability for pending litigation or unasserted claims related to prior cleanup activities. These legal events are a type of contingent liability that should be recognized in accordance with the GSA policy on contingent liabilities.

Attachment B

Accounting Procedures for Environmental Related Cleanup Costs

This attachment outlines procedures to enable the General Services Administration (GSA) to record and track environmental related cleanup costs effectively and accurately. Public Buildings Service (PBS) will issue a revised *Accounting for Environmental Liabilities Guidelines* providing additional detailed guidance to ensure environmental related cleanup costs are recorded in accordance with policy. The following procedures must be followed to provide for proper accounting treatment of environmental related cleanup costs. Illustrations of these procedures are provided in Attachment C of this document.

1. Exercising due care in identifying environmental liabilities (i.e., determining likely contamination),

a. At the implementation of the related policy, GSA will initiate a baseline assessment and conduct the due care process to identify potential environmental liabilities as a result of contamination across all owned Property and Equipment (P&E) (i.e., buildings, land, and equipment), including capital leased assets, when GSA is legally liable for potential cleanup costs. As part of this evaluation, GSA will include future cleanup costs at the end of the asset's accounting useful life (i.e., asset retirement and equipment disposal).

b. GSA will initiate the due care process before the acquisition of new assets or newly leased assets when there is a potential that GSA could be legally liable for potential cleanup costs.

c. GSA will periodically and systematically evaluate all owned P&E, including capital leased assets when GSA is legally liable for cleanup to identify potential environmental liabilities as a result of contamination. GSA will use a due care process to make a reasonable effort to identify the presence or likely presence of contamination and identify environmental sites for evaluation. Procedures that evidence due care may include but are not limited to:

(1) Visual site inspection of any portions of the property where environmental contamination is likely or suspected. This may include an initial or characterization study;

(2) Review of the results of completed environmental assessments for regulatory requirements;

(3) Investigation into prior uses of the property through review of existing records and good faith inquiries;

(4) Investigation of aerial photographs that are available through government agencies that may reflect prior uses;

(5) Analysis to estimate the existence of contaminations based on experience with similar sites;

(6) Review of public records (i.e., Federal, state, and/or local jurisdictions) that show whether there has been a release or potential release of hazardous substances on the property (and adjacent property, if suspected contaminators exist); and

(7) Investigation of complaints regarding abnormal health conditions.

d. At the implementation of the related policy, GSA will initiate a baseline assessment to identify the population of assets expected to contain asbestos (i.e., friable and non-friable) by obtaining a complete and current portfolio of assets and excluding the following items that are not expected to contain asbestos:

(1) Asset types that are not likely to contain asbestos (e.g., power lines, airfield pavements, roads, sidewalks, and land);

(2) Assets that have undergone complete asbestos abatement (e.g., asbestos has been removed from a property and there is documentation confirming the removal of asbestos);

(3) Non-friable asbestos that is expected to remain non-friable indefinitely and has no incremental cost to prevent the non-friable asbestos material from becoming friable including at asset retirement (e.g., roofing, flooring, siding, and other materials that when repaired, removed, contained, disposed of, or otherwise disturbed do not become friable);

(4) Land containing only naturally occurring asbestos (NOA) which can be found in soil, rocks and mines.

(5) Assets that are under a capital lease that GSA does not have legal liability to cleanup.

e. The remaining population of inventory includes all GSA owned assets expected to contain asbestos (i.e., friable and non-friable). Subsequent to the baseline assessment, additional asbestos related cleanup costs will be identified through the due care process outlined in paragraphs 1b and 1c above.

2. Determining GSA legally liable events (i.e., determining probable future outflows).

a. GSA will evaluate environmental contamination to determine whether it is probable that GSA is legally liable to clean up the environmental contamination identified in the due care process. Instances of environmental contamination where GSA is legally required to cleanup are considered GSA legally liable events. This includes events such as:

(1) Contamination of a non-Federal property caused by GSA operations (e.g., releases of hazardous waste from GSA operations onto an adjoining landowner's property);

(2) Contamination of a GSA property resulting from Federal operations, whether attributable to GSA or other Federal entities; or

(3) Contamination which GSA is otherwise legally liable to cleanup under Federal, state, or local law, environmental regulations, court decisions, or any legally binding documents (this also includes scenarios where GSA agreed to be legally liable for the necessary cleanup costs).

b. GSA will reassess the legal liability for environmental cleanup upon the disposition of assets or other legal event to determine if GSA remains legally liable for any future cleanup costs. If GSA is no longer legally liable for future cleanup, then the associated environmental liability should be reduced.

3. Developing and updating cost estimates for GSA legally liable events (i.e., determining reasonably estimable).

a. GSA will develop reasonable future cleanup cost estimates for identified environmental sites that are GSA legally liable events. The estimate will include costs of decontamination, decommissioning, restoration, monitoring, closure, post closure; and future surveys, studies, and assessments (i.e., asset retirement and equipment disposal) on the environmental site when remediation technology exists. Cost estimates should be based on information from one or more of the following:

(1) Site specific cost estimates including environmental studies or characterization assessment on a specific asset;

(2) Extrapolation of historical costs for similar sites;

(3) Use of independent government estimates or contractor proposals; and

(4) Cost factors.

b. If GSA is unable to estimate future cleanup costs (i.e., no remediation technology exists), GSA will include the costs to contain the environmental contamination and other relevant costs within the environmental liability until cleanup costs can be estimated. Depending on the type of environmental contamination,

containment technologies may include capping, filling, or providing liners to manage and monitor hazardous waste at specific sites. If contamination requires periodic containment costs, the total estimated costs, for each containment will be included within the environmental liability estimate.

c. GSA will periodically update cost estimates based on a review of environmental site information, new studies, cleanup activities, and changes in regulations, inflation, and any other new developments (i.e. changes in facts or environmental information available). GSA will utilize a methodology to account for changes in cost estimates due to inflation or deflation. GSA will review environmental sites with cost estimates previously recorded for changes in expenditures, scope or costs, and newly scoped items. GSA will update cost estimates based on major environmental events or incidents. For example, GSA has a property with a leak in an underground storage tank that is contaminating nearby groundwater. During a quarterly review, GSA discovers that the amount of contaminant has surpassed maximum safe threshold levels and is now subject to more stringent environmental regulations. GSA will revise the cost estimate to reflect the costs related to the changes in regulations.

4. Recognition methodology for environmental cleanup costs.

a. The following recognition methodologies and the associated journal entries will be used to record transactions for environmental related cleanup costs within the GSA financial statements. The journal entries provided here are not inclusive of all the necessary journal entries related to environmental cleanup related costs.

(1) For GSA legally liable events that require immediate cleanup, including friable asbestos that is not contained, GSA will recognize the total estimated cleanup costs as an environmental liability in the current period. There is no deferral of recognition for these cleanup costs because the contamination requires immediate cleanup.

Journal Entries

Condition	Debit	Credit
Cleanup Cost Estimation	6800.xx - Future Funded Expenses	2995.xx - Environmental Liabilities Unfunded

(2) For cleanup costs related to assets requiring cleanup prior to or at the end of the asset's accounting useful life (i.e., asset retirement) due to contamination, including non-friable and contained friable asbestos, GSA will recognize the environmental liability evenly on an annual basis over the accounting useful life of the asset, beginning on the date placed into service. Depending on the asset's remaining useful life, one of the following recognition methodologies will be used:

(a) If the asset is newly acquired, GSA will recognize the environmental liability evenly on an annual basis over the entire accounting useful life.

(b) If the liability is identified after part of the asset's accounting useful life has expired, GSA will perform the following procedures to determine the appropriate cost recognition amounts:

(i) Calculate the annual recognition amount by dividing the total estimated cleanup costs over the asset's initial accounting useful life.

(ii) Recognize the portion of the cleanup costs for the asset's expired useful life in the current period by multiplying the annual recognition amount by the number of expired useful life years.

(iii) Recognize the remaining portion of the cleanup costs evenly on an annual basis over the remaining accounting useful life.

(c) If the asset has no accounting useful life at the time the contamination is identified, GSA will recognize the total estimated cleanup cost liability in the current period.

(d) If the asset's accounting useful life is extended or reduced, GSA will recognize the change in accounting useful life as a prospective change and will prorate the remaining unrecognized liability evenly on an annual basis over the new remaining accounting useful life.

Journal Entries

Condition	Debit	Credit
Cleanup Cost Estimation	6800.xx - Future Funded Expenses	2995.xx - Environmental Liabilities Unfunded

(3) For cleanup costs related to the disposal of equipment, GSA will recognize the environmental liability evenly on annual basis over the accounting useful life of the equipment, beginning on the date the equipment is placed into service.

(a) If the equipment is newly acquired, GSA will recognize the environmental liability evenly on annual basis over the entire accounting useful life.

(b) If the liability is identified after part of the equipment's accounting useful life has expired, GSA should perform the following procedures to determine the appropriate cost recognition amounts:

(i) Calculate the annual recognition amount by dividing the total estimated cleanup costs over the equipment's initial accounting useful life.

(ii) Recognize the portion of the cleanup costs for the equipment's expired useful life in the current period by multiplying the annual recognition amount by the number of expired useful life years.

(iii) Recognize the remaining portion of the cleanup costs evenly on an annual basis over the remaining accounting useful life.

(c) If the equipment has no accounting useful life at the time the contamination is identified, GSA will recognize the total estimated cleanup cost liability in the current period.

(d) If the equipment's accounting useful life is extended or reduced, GSA will recognize the change in accounting useful life as a prospective change and would prorate the remaining unrecognized liability evenly over the new remaining accounting useful life.

Journal Entries

Condition	Debit	Credit
Cleanup Cost Estimation	6800.xx - Future Funded Expenses	2995.xx - Environmental Liabilities Unfunded

(4) For contaminated land, GSA will recognize a liability for the total estimated cleanup costs in the period the contamination is identified.

Journal Entries

Condition	Debit	Credit
Cleanup Cost Estimation	6800.xx - Future Funded Expenses	2995.xx - Environmental Liabilities Unfunded

(5) For cost re-estimates of environmental liabilities, GSA will recognize, in the current period, a portion of the costs associated with the asset's expired accounting useful life and recognize the remaining cost evenly on an annual basis over the remaining accounting useful life. Depending on the asset's remaining useful life, one of the following recognition methodologies will be used:

(a) If the asset has no remaining accounting useful life, GSA will recognize the difference in estimate for the current period.

(b) If the asset has a remaining accounting useful life, GSA should perform the following procedures to determine the recognition of the re-estimate:

(i) Calculate the annual recognition change by dividing the difference in cost estimate over the asset's initial accounting useful life.

(ii) Recognize the portion of the difference in estimate for the asset's expired useful life in the current period by multiplying the annual difference in estimate recognition by the number of expired useful life years.

(iii) Recognize the remaining portion of the difference in estimate evenly on annual basis over the remaining accounting useful life in addition to the original estimate recognition amount.

Journal Entries

Condition	Debit	Credit
Cleanup Cost Estimation Update (Increase)	6800.xx - Future Funded Expenses	2995.xx - Environmental Liabilities Unfunded
Cleanup Cost Estimation Update (Decrease)	2995.xx - Environmental Liabilities Unfunded	6800.xx - Future Funded Expenses

(6) For P&E permanently removed from service (i.e., asset's use is terminated and the GSA intent to retire the asset has been documented), GSA will recognize the remaining unrecognized portion of the environmental liability in the period the asset is permanently removed from service. Refer to the GSA property accountability policy for details on the determination of an asset being permanently removed from service.

Journal Entries

Condition	Debit	Credit
Recognition of Remaining Unrecognized Portion Upon Permanent Removal From Service	6800.xx - Future Funded Expenses	2995.xx - Environmental Liabilities Unfunded

(7) For assets that GSA is no longer legally liable for future cleanup costs (e.g., asset is sold "as is", legal agreement to transfer responsibility), GSA will reduce the previously recognized liability. This might include situations where another entity remediates or assumes responsibility for the environmental contamination.

Journal Entries

Condition	Debit	Credit
Reduction in Liability	2995.xx - Environmental Liabilities Unfunded	6800.xx - Future Funded Expenses

(8) For environmental related cleanup costs incurred (i.e., cleanup performed by GSA personnel or GSA contractors), GSA will reduce the previously recognized environmental liability.

Journal Entries

Condition	Debit	Credit
Reduction in Liability	2995.xx - Environmental Liabilities Unfunded	6800.xx - Future Funded Expenses

Condition	Debit	Credit
Incurred Cleanup Cost	6100.xx - Operating Expenses/Program Costs 4610.xx - Allotments - Realized Resources	1010.xx - Disbursements/Cash 4902.xx - Delivered Orders - Obligations, Paid

(9) For GAEs, GSA will recognize environmental related cleanup costs as an expense in the current period for the amount of costs incurred. No environmental liability should be recognized for future costs.

Journal Entries

Condition	Debit	Credit
Government Acknowledged Events	6100.xx - Operating Expenses/Program Costs 4610.xx - Allotments - Realized Resources	1010.xx - Disbursements/Cash 4902.xx - Delivered Orders - Obligations, Paid

(10) For contamination remediated as a routine part of ongoing operations and maintenance (i.e., O&M), GSA will expense environmental related cleanup costs in the period incurred. No environmental liability should be recognized for future costs.

Journal Entries

Condition	Debit	Credit
Ongoing Operations (i.e., O&M)	6100.xx - Operating Expenses/Program Costs	1010.xx - Disbursements/Cash
	4610.xx - Allotments - Realized Resources	4902.xx - Delivered Orders - Obligations, Paid

5. Additional procedures

The PBS Financial Operations Division (BCP) will develop internal controls to ensure environmental related cleanup costs are identified and recorded in accordance with the accounting treatment for environmental related cleanup costs policy and procedures. Such internal controls will include:

- a. Oversight over the execution and documentation of the following processes:
 - (1) Exercising due care in identifying environmental liabilities (i.e., determining likely contamination)
 - (2) Determining environmental liabilities (i.e., determining legal liability)
 - (3) Developing and updating cost estimates for environmental liabilities (i.e., determining reasonably estimable)
- b. For actual incurred costs, the separate tracking of the obligation of funds under appropriate accounting line/contract line item number (CLIN) and projects are assigned specific environmental work category codes (WCC) to allow for proper classification (i.e., expense instead of capitalize).
- c. Proper recording of environmental liabilities and cleanup costs in Pegasys.

Attachment C

Scenarios for Environmental Related Cleanup Cost Recognition

This attachment provides scenarios that could be encountered when recognizing environmental liabilities. The following scenarios provide illustrations for Attachments A and B and are based on actual environmental sites; however, the scenarios have been altered to include hypothetical deviations from the actual site information to provide more effective illustrations of the policy. These scenarios are not meant to amend or override the policy and procedures detailed in the previous attachments or any Federal accounting standards. The journal entries provided here are not inclusive of all the necessary journal entries related to environmental cleanup related costs.

1. Government Acknowledged Event (GAE).

a. Background. A courthouse site has contaminated soil and groundwater. The contamination includes benzene, toluene, ethyl benzene, and xylene (BTEX), perchloroethylene (PCE), and trichloroethylene (TCE), as a result of past spills during historical usage by a non-Federal entity.

The contaminated site is owned by a non-Federal entity. GSA participates with the local Department of Environmental Management to clean up the contaminated site. As a part of this cleanup effort, GSA expects to contribute \$800,000 towards the cleanup, but thus far only incurred \$600,000 in environmental cleanup costs.

b. Environmental cleanup costs policy. When a contamination is caused by a non-Federal entity to a non-Federal site and GSA participates in the cleanup effort, the event is classified as a GAE. Per the policy statement in Attachment A, paragraph 12, GSA will not estimate or recognize an environmental liability for GAEs. Recognition of an expense for the actual amount of cleanup costs incurred in the current period is all that is required. GSA will not recognize environmental liabilities for the remainder of the obligation, if any, for services that have not been rendered (e.g., contractor has not performed cleanup).

c. Conclusion. Since this is a GAE, GSA will only recognize the \$600,000 costs incurred as an expense in the current period.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Government Acknowledged Events	6100.xx - Operating Expenses/Program Costs	\$600,000	1010.xx - Disbursements/Cash	\$600,000
	4610.xx Allotments -Realized Resources	\$600,000	4902.xx - Delivered Orders - Obligations, Paid	\$600,000

2. Government acknowledged event (GAE).

a. Background. GSA owns a site that is located down grade from a lot owned by a non-Federal entity that has a leaking underground storage tank (UST). The leaking UST is contaminating the soil and groundwater at the lot with BTEX and the contamination has spread to the soil and ground water on the GSA site.

In order to prevent the contamination from spreading further onto the GSA site, GSA hires a contractor to perform soil and groundwater remediation for the portion of the GSA property that has been contaminated. GSA is not liable to clean up the contamination, but chooses to do so in order to remove the threat of contamination to its property. GSA incurs \$400,000 in remediation costs. The contractor also provides GSA with an estimate that another \$300,000 in remediation costs will be required for the GSA property in two years based on the rate at which the contamination is spreading from offsite.

b. Environmental cleanup costs policy. When a contamination is caused by a non-Federal entity and GSA participates in the cleanup effort due to a Federal interest in the property or Federal concern to avoid contamination of Federal property that causes immediate risks, it is classified as a GAE. Per the policy statement in Attachment A, paragraph 12, GSA will not estimate or recognize an environmental liability for GAEs. Recognition of an expense for the actual amount of cleanup costs incurred in the current period is all that is required. GSA will not recognize environmental liabilities for the remainder of the obligation, if any, for services that have not been rendered (e.g., contractor has not performed cleanup).

c. Conclusion. Since this is a GAE, GSA will only recognize the \$400,000 costs incurred as an expense in the current period. The estimate of \$300,000 for future cleanup will not be recognized as an environmental liability.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Government Acknowledged Events	6100.xx - Operating Expenses/Program Costs	\$400,000	1010.xx - Disbursements/Cash	\$400,000
	4610.xx Allotments - Realized Resources	\$400,000	4902.xx - Delivered Orders - Obligations, Paid	\$400,000

3. Contamination requiring immediate cleanup.

a. *Background.* GSA owns a former army depot, which includes several warehouses. The warehouses are used by GSA to store and distribute various Federal supplies, including: batteries, paint, petroleum products, and solvents. There is an accidental petroleum spill within one of the warehouses caused by GSA operations that is significant enough to pose an immediate threat to the health of the workers at the facility, and the facility is shut down. The contamination requires immediate cleanup. Contamination that requires immediate cleanup poses a substantial present hazard to human health or the environment and is required by environmental laws or regulations to be remediated or contained in the current period and cannot be deferred.

The estimated total cost to fully remediate the contaminated warehouse is \$300,000.

b. *Environmental cleanup costs policy.* Since GSA owns the property and caused the contamination, GSA is liable for the cleanup. Per the policy statement in Attachment A, paragraph 6, GSA will estimate environmental related cleanup costs for P&E (i.e., buildings, equipment, and land associated with other P&E) requiring immediate cleanup due to contamination, including friable asbestos that is not contained. Equipment that is attached to a building will be treated as part of the building for cleanup cost recognition purposes. The estimated cleanup costs will be recognized in full, as an environmental liability, in the period the contamination is identified.

c. Conclusion.

(1) GSA will recognize the full \$300,000 environmental liability in the current period.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Cleanup Cost Estimation	6800.xx - Future Funded Expenses	\$300,000	2995.xx - Environmental Liabilities Unfunded	\$300,000

(2) Subsequent to the recognition of the environmental liability, GSA contracts a vendor to complete the cleanup, and it is completed. GSA incurs the full \$300,000 cost of remediation on the site. In the period when cleanup costs are incurred and GSA determines or is notified that all contaminations have been removed, GSA will recognize an operating expense in the amount of \$300,000 for the amount of costs incurred and reduce the liability by the full \$300,000 previously recognized.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Reduction in Liability	2995.xx - Environmental Liabilities Unfunded	\$300,000	6800.xx - Future Funded Expenses	\$300,000

Condition	Debit	Amount	Credit	Amount
Incurred Cleanup Cost	6100.xx - Operating Expenses/Program Costs	\$300,000	1010.xx - Disbursements/Cash	\$300,000
	4610.xx Allotments - Realized Resources	\$300,000	4902.xx - Delivered Orders - Obligations, Paid	\$300,000

4. Contamination requiring future cleanup prior to asset retirement.

a. Background. GSA owns a former hospital that was transferred from the Department of Health and Human Services (HHS). This hospital is no longer in operation and is anticipated to require environmental cleanup before any future Federal operations and/or retirement/disposal of the property can occur. After the transfer, multiple contaminants, including lead, petroleum, and polychlorinated biphenyl (PCB) are discovered in the soil surrounding the hospital. The estimated total cost to remove and dispose of the contaminated soil is \$3 million. Under Federal and state regulations, the contamination requires cleanup before the land can be used. Since the site is not operational, it does not pose an immediate risk.

The land can remain unaddressed until a change in use occurs. Nonetheless, GSA has requested funding to clean the contaminated property, but does not anticipate funding until sometime in the future (i.e., two to five years).

b. Environmental cleanup costs policy.

(1) Since HHS is a Federal entity, and GSA owns the property, GSA is liable for the cleanup. Per the policy statement in Attachment A, paragraph 6, GSA will estimate environmental related cleanup costs for P&E (i.e., buildings, equipment, and land associated with other P&E) not requiring immediate cleanup due to contamination, but is anticipated to be cleaned prior to or at the end of the asset's useful life, including non-friable and/or contained friable asbestos. These cleanup costs, commonly referred to as environmental related asset retirement and equipment disposal costs, represent future environmental liabilities and are the incremental portion of the cost to be incurred for the removal and special handling of the contamination above the normal retirement cost of the asset.

(2) Per the policy statement in Attachment A, paragraph 7, GSA will recognize estimated environmental cleanup costs as environmental liabilities in the financial statements for GSA legally liable events based on the following situations:

(a) For future estimated cleanup costs (i.e., prior to or at asset retirement and equipment disposal), GSA will recognize cleanup costs evenly on an annual basis over the accounting useful life of the asset, beginning on the date the asset is placed into service.

(b) For assets with no accounting useful life or for assets with contamination requiring immediate cleanup, GSA will recognize the total estimated cleanup costs as an environmental liability in the current period.

c. Conclusion.

(1) Since the land is associated with a building, it assumes the accounting useful life of the building, which is 30 years. The building has the full 30 years of accounting useful life remaining, so GSA will recognize an environmental liability in the amount of \$100,000 each year of the building's accounting useful life starting in the current period.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Cleanup Cost Estimation	6800.xx - Future Funded Expenses	\$100,000	2995.xx - Environmental Liabilities Unfunded	\$100,000

(2) After five years, GSA performs the full remediation and only incurs \$2 million in cleanup costs. GSA will recognize an operating expense in the amount of

\$2 million for the amount of costs incurred and reduce the liability by the \$500,000 (\$100,000 X 5 years) previously recognized.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Reduction in Liability	2995.xx - Environmental Liabilities Unfunded	\$500,000	6800.xx - Future Funded Expenses	\$500,000

Condition	Debit	Amount	Credit	Amount
Incurred Cleanup Cost	6100.xx - Operating Expenses/Program Costs	\$2 million	1010.xx - Disbursements/Cash	\$2 million
	4610.xx Allotments - Realized Resources	\$2 million	4902.xx - Delivered Orders - Obligations, Paid	\$2 million

5. Contamination requiring future cleanup during asset retirement.

a. Background.

(1) GSA owns a Federal office building which houses operating transformers. PCB contaminated concrete exists in four transformer vaults. PCB is a federally recognized contaminant that needs to be removed or contained. State and Federal laws do not require immediate cleanup of PCBs if properly contained. The concrete was double-washed in an attempt to remediate the contamination.

(2) Double-washing the concrete does not bring the contamination below the legal threshold level and therefore the contaminated concrete is painted with two layers of epoxy paint to contain the contamination indefinitely. Underneath the layer of paint, the concrete is still contaminated and will need to be disposed of accordingly at the point of retirement of the building. Based on experience with a similar site, GSA is able to estimate the cost to remove and dispose of the contaminated concrete for all four vaults at \$300,000.

b. Environmental cleanup costs policy.

(1) GSA will recognize estimated environmental cleanup costs for the removal of the PCB contaminated concrete as an environmental liability associated with retirement of an asset. Per the policy statement in Attachment A, paragraph 6, GSA will estimate environmental related cleanup costs for P&E (i.e. buildings, equipment, and land associated with other P&E) not requiring immediate cleanup due to contamination, but is anticipated to be cleaned prior to or at the end of the asset's useful life, including non-friable and/or contained friable asbestos. These

cleanup costs, commonly referred to as environmental related asset retirement and equipment disposal costs, represent future environmental liabilities and are the incremental portion of the cost to be incurred for the removal and special handling of the contamination above the normal retirement cost of the asset.

(2) Per the policy statement in Attachment A, paragraph 7, GSA will recognize estimated environmental cleanup costs as environmental liabilities in its financial statements for GSA legally liable events based on the following situations:

(a) For future estimated cleanup costs (i.e., prior to or at asset retirement and equipment disposal), GSA will recognize cleanup costs evenly on an annual basis over the accounting useful life of the asset, beginning on the date the asset is placed into service.

(b) For assets with no accounting useful life or for assets with contamination requiring immediate cleanup, GSA will recognize the total estimated cleanup costs as an environmental liability in the current period.

c. Conclusion.

(1) GSA will recognize a portion of the estimated cleanup cost as an environmental liability in each period over the life of the asset. The total estimated cleanup cost of \$300,000 will be evenly distributed over the 30 years of accounting useful life to calculate the annual environmental liability amount. Below are several examples showing the amount of environmental liability to be recognized when the asset has: (1) full remaining useful life (30 years); (2) some remaining accounting useful life (10 years); (3) no remaining accounting useful life (zero years); and, (4) the asset has some useful life remaining when it is permanently removed from service.

(a) Full remaining useful life (30 years). If the building is new and has the full 30 years of accounting useful life, GSA will recognize an environmental liability of \$10,000 each year for the next 30 years or until the building is removed from service (whichever comes first).

Journal Entries

Condition	Debit	Amount	Credit	Amount
Cleanup Cost Estimation	6800.xx - Future Funded Expenses	\$10,000	2995.xx - Environmental Liabilities Unfunded	\$10,000

(b) Some remaining useful life (10 years). If the building has been in service for 20 years at the time the contamination is identified and the remaining accounting useful life is 10 years, GSA will recognize an environmental liability for the useful life that has already expired (i.e., 20 years) in the year the cleanup cost is estimated. The amount of this environmental liability equals \$200,000 (\$10,000 X 20

years). The remaining portion of environmental cleanup cost associated with the building's remaining accounting useful life of \$100,000 ($\$10,000 \times 10 \text{ years} = \$100,000$) will be recognized evenly over the remaining accounting useful life (\$10,000 per year).

Journal Entries

Condition	Debit	Amount	Credit	Amount
Cleanup Cost Estimation - initial recognition	6800.xx - Future Funded Expenses	\$200,000	2995.xx - Environmental Liabilities Unfunded	\$200,000
Cleanup Cost Estimation - future recognitions	6800.xx - Future Funded Expenses	\$10,000	2995.xx - Environmental Liabilities Unfunded	\$10,000

(c) *No remaining useful life (zero years).* If the building has no remaining accounting useful life, GSA will recognize the full cleanup cost as an environmental liability in the year the cleanup cost is estimated. In this case, GSA will recognize the total cleanup cost of \$300,000 as an environmental liability in the current period.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Cleanup Cost Estimation	6800.xx - Future Funded Expenses	\$300,000	2995.xx - Environmental Liabilities Unfunded	\$300,000

(d) *Some useful life remaining when permanently removed from service.* After 25 years in service, GSA decides to permanently remove the building from service (i.e., asset's use is terminated and the GSA intent to retire the asset has been documented). During retirement, the building had five years in accounting useful life remaining. GSA will recognize the remaining environmental liability amount ($\$10,000 \times 5 \text{ years} = \$50,000$) in the year the decision to retire the building is made.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Recognition of Remaining Unrecognized Portion Upon Permanent Removal From Service	6800.xx - Future Funded Expenses	\$50,000	2995.xx - Environmental Liabilities Unfunded	\$50,000

(2) During the retirement of the building, GSA incurs \$250,000 in total cleanup costs to remove the contamination and no additional costs are anticipated. In the period when cleanup costs are incurred, GSA will recognize an operating expense of \$250,000 for the amount of costs incurred and reduce the liability by the full \$300,000 previously recognized.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Reduction in Liability	2995.xx - Environmental Liabilities Unfunded	\$300,000	6800.xx - Future Funded Expenses	\$300,000

Condition	Debit	Amount	Credit	Amount
Incurred Cleanup Cost	6100.xx - Operating Expenses/Program Costs	\$250,000	1010.xx - Disbursements/Cash	\$250,000
	4610.xx Allotments - Realized Resources	\$250,000	4902.xx - Delivered Orders - Obligations, Paid	\$250,000

6. Contamination requiring future cleanup during equipment disposal.

a. Background.

(1) GSA owns a compressor that it classifies as operating equipment. This compressor contains oil that is considered hazardous substance and will need to be removed and properly disposed of upon disposal of the compressor. The removal and disposal of the oil is not performed routinely throughout the life of the compressor, but is rather unique to the disposal of the compressor. Upon removal of the oil, the equipment will also need to be flushed with solvent in order to remove any remaining oil prior to disposal. Since GSA owns the compressor, it is liable for the cleanup.

(2) Based on experience with disposing of contaminated compressors, GSA is able to estimate a \$500 incremental cost to remove and dispose of the oil, as well as, to flush the equipment and dispose of the solvent, above the normal costs associated with disposing of the compressor.

b. Environmental cleanup costs policy.

(1) The incremental cost to remove and dispose of the oil and to flush the equipment and dispose of the solvent, above the normal costs associated with disposing of the compressor, is considered an environmental related cleanup cost. Per the policy statement in Attachment A, paragraph 6, GSA will estimate

environmental related cleanup costs for P&E (i.e., buildings, equipment, and land associated with other P&E) not requiring immediate cleanup due to contamination, but is anticipated to be cleaned prior to or at the end of the asset's useful life, including non-friable and/or contained friable asbestos. These cleanup costs, commonly referred to as environmental related asset retirement and equipment disposal costs, represent future environmental liabilities and are the incremental portion of the cost to be incurred for the removal and special handling of the contamination above the normal retirement cost of the asset.

(2) Per the policy statement in Attachment A, paragraph 7, GSA will recognize estimated environmental cleanup costs as environmental liabilities in its financial statements for GSA legally liable events based on the following situations:

(a) For future estimated cleanup costs (i.e., prior to or at asset retirement and equipment disposal), GSA will recognize cleanup costs evenly on an annual basis over the accounting useful life of the asset, beginning on the date the asset is placed into service.

(b) For assets with no accounting useful life or for assets requiring immediate cleanup due to contamination, GSA will recognize the total estimated cleanup costs as an environmental liability in the current period.

c. Conclusion. GSA will recognize a portion of the estimated cleanup cost as an environmental liability in each period over the life of the equipment. The total estimated cleanup cost of \$500 will be evenly distributed over the 10 years of accounting useful life to calculate the annual environmental liability amount. Below are several examples showing the amount of environmental liability to be recognized when the equipment has: (1) no remaining accounting useful life (zero years); (2) the full remaining accounting useful life (10 years); and (3) some remaining accounting useful life (three years).

(1) No remaining useful life (zero years). If the compressor has no remaining accounting useful life, GSA will recognize the full environmental liability in the current period. In this case, GSA will recognize a \$500 environmental liability in the current year.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Cleanup Cost Estimation	6800.xx - Future Funded Expenses	\$500	2995.xx - Environmental Liabilities Unfunded	\$500

(2) Full remaining useful life (10 years). If the compressor has its full 10 years of accounting useful life remaining (e.g., a new compressor), GSA will

recognize an environmental liability in the amount of \$50 each year for 10 years beginning with the current year.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Cleanup Cost Estimation	6800.xx - Future Funded Expenses	\$50	2995.xx - Environmental Liabilities Unfunded	\$50

(3) *Some remaining useful life (three years)*. If the compressor has three years of accounting useful life remaining, GSA will recognize the portion of the estimated environmental cleanup cost for the compressor's useful life that has already expired (i.e., seven years) as an expense in the current year. GSA will recognize a \$350 (\$50 X 7 years) environmental liability in the current year for the seven years of accounting useful life expended. The remaining portion of environmental cleanup costs (\$150) will be recognized evenly over the compressor's remaining useful life of three years (\$50 each year).

Journal Entries

Condition	Debit	Amount	Credit	Amount
Cleanup Cost Estimation	6800.xx - Future Funded Expenses	\$350	2995.xx - Environmental Liabilities Unfunded	\$350

7. Ongoing operations and maintenance cleanup.

a. *Background.*

(1) GSA owns a Federal building which contains operating transformers. PCBs leak from the transformers and contaminate the surrounding network protectors on a regular basis as part of the transformer's normal function. GSA must routinely inspect and remediate the contaminants on the network protectors in order to avoid further damage. The total cost to remediate and dispose of the contaminations on the network protectors is \$60,000 each time.

(2) The transformer is operating in the manner intended and without defect. However, as a result of normal operations the network protectors become contaminated with PCBs from the transformer periodically and need to be remediated.

b. *Environmental cleanup costs policy.* Cleanup performed regularly to remove contaminants from network protectors that are generated when the transformer is

operating in the way intended and without defect is considered ongoing operations and maintenance (O&M) cleanup. Per the policy statement in Attachment A, paragraph 13, GSA will not estimate or recognize an environmental liability for cleanup costs associated with cleanup performed as a routine part of ongoing operations and maintenance (O&M). Cleanup costs associated with activities that are part of the asset's routine preventative maintenance or day-to-day operations when the asset is operating as intended without defect are considered O&M costs. Recognition of an expense for the actual amount of O&M cleanup costs incurred in the current period is all that is required.

c. Conclusion. Since removal of the contamination from the network protectors is performed periodically as a routine part of ongoing O&M, GSA will not estimate and recognize an environmental liability for this type of cleanup costs. However, GSA will recognize an operating expense in the amount of \$60,000 in the period the cleanup occurs.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Ongoing Operations and Maintenance (i.e. O&M)	6100.xx - Operating Expenses/Program Costs	\$60,000	1010.xx - Disbursements/Cash	\$60,000
	4610.xx Allotments - Realized Resources	\$60,000	4902.xx - Delivered Orders - Obligations, Paid	\$60,000

8. Land not associated with other P&E requiring immediate cleanup.

a. Background. GSA owns a large piece of land that is not associated with any other P&E. A portion of the land's soil is contaminated and the contamination was caused by Federal operations. GSA determines that a portion of the contamination requires immediate cleanup. Contamination that requires immediate cleanup poses a substantial present hazard to human health or the environment and is required by environmental laws or regulations to be remediated or contained in the current period and cannot be deferred. GSA receives an estimate from a contractor of \$1 million to remove the contamination.

b. Environmental cleanup costs policy. Per the policy statement in Attachment A, paragraph 8, for land not associated with other P&E (i.e. buildings or equipment) and where the contamination is a GSA legally liable event, GSA will recognize a liability for the total estimated cleanup costs in the period when the contamination is identified. Land associated with other P&E will assume the useful life and the recognition methodology of the associated P&E.

c. Conclusion.

(1) GSA will recognize an environmental liability for the full \$1 million of estimated cleanup costs in the period the contamination is identified.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Cleanup Cost Estimation	6800.xx - Future Funded Expenses	\$1,000,000	2995.xx - Environmental Liabilities Unfunded	\$1,000,000

(2) When cleanup costs are incurred and it is determined that there is no remaining contamination, GSA will recognize an operating expense in the amount of \$1 million for the amount of costs incurred and reduce the liability by the full \$1 million previously recognized.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Reduction in Liability	2995.xx - Environmental Liabilities Unfunded	\$1,000,000	6800.xx - Future Funded Expenses	\$1,000,000

Condition	Debit	Amount	Credit	Amount
Incurred Cleanup Cost	6100.xx - Operating Expenses/Program Costs	\$1,000,000	1010.xx - Disbursements/Cash	\$1,000,000
	4610.xx Allotments - Realized Resources	\$1,000,000	4902.xx - Delivered Orders - Obligations, Paid	\$1,000,000

9. Land not associated with other P&E requiring future cleanup.

a. Background.

(1) A plot of land has contaminated soil and groundwater. The contamination includes BTEX, PCE, and TCE as a result of past spills during historical usage by a non-Federal entity.

(2) GSA purchases the site with knowledge of the contamination and agrees to perform the environmental cleanup. The site is intended for future construction of a Federal courthouse; however, it is not currently associated with any other P&E. State and Federal law requires cleanup of land contaminated with BTEX, PCE, and TCE. Upon purchasing the site, GSA estimates cleanup costs to be approximately \$800,000. At the time of purchase, GSA does not have funding for the cleanup, but is planning to perform the remediation as soon as funding is available.

b. Environmental cleanup costs policy.

(1) When GSA purchases a contaminated site with the knowledge of the contamination and agrees to remediate the contamination, GSA is considered legally liable. Per the policy statement in Attachment A, paragraph 5, GSA will determine if the contamination identified in the due care process are GSA legally liable events. Events that are considered GSA legally liable include:

(a) Contamination of a non-Federal property caused by GSA operations (e.g., releases of hazardous waste from GSA operations onto an adjoining landowner's property);

(b) Contamination of a GSA property resulting from Federal operations whether attributable to GSA or other Federal agencies; or

(c) Contamination caused by Federal or non-Federal entities which GSA is otherwise legally liable to cleanup under Federal, state, or local law, environmental regulations, court decisions, or any legally binding documents (this also includes scenarios where GSA agreed to be liable for the necessary cleanup costs).

(2) Per the policy statement in Attachment A, paragraph 8, for land not associated with other P&E (i.e., buildings or equipment) and where the contamination is a GSA legally liable event, GSA will recognize a liability for the total estimated cleanup costs in the period when the contamination is identified. Land associated with other P&E will assume the useful life and the recognition methodology of the associated P&E.

c. Conclusion.

(1) GSA will recognize the total estimated environmental cleanup costs of \$800,000 as an environmental liability for the contaminated site requiring cleanup in the current period.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Cleanup Cost Estimation	6800.xx - Future Funded Expenses	\$800,000	2995.xx - Environmental Liabilities Unfunded	\$800,000

(2) Subsequent to the recognition of the environmental liability, GSA receives funding for a portion of the estimated remediation cost in the fiscal year following the recognition. GSA incurs the total amount of funding received (i.e., \$500,000) for remediation on the site in that fiscal year and records the incurred costs.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Incurred Cleanup Cost	6100.xx - Operating Expenses/Program Costs	\$500,000	1010.xx - Disbursements/Cash	\$500,000
	4610.xx Allotments - Realized Resources	\$500,000	4902.xx - Delivered Orders - Obligations, Paid	\$500,000

(3) Assuming there are no changes to the previously estimated cleanup costs of \$800,000, GSA will reduce the portion of the environmental liability for the amount of environmental cleanup costs incurred (i.e., \$500,000).

Journal Entries

Condition	Debit	Amount	Credit	Amount
Reduction in Liability	2995.xx - Environmental Liabilities Unfunded	\$500,000	6800.xx - Future Funded Expenses	\$500,000

10. Contaminated asset restoration cost.

a. Background.

(1) A Federal property has contaminated soil as a result of past spills during historical usage by a Federal entity. GSA accepts the property, with knowledge of the contamination and agrees to perform the environmental cleanup. The site is intended for future construction of a new Federal office. A state consent order requires any contaminated soils that leave the facility must go to a sub-title D Recovery Conservation and Recovery Act (RCRA) type landfill. The land also contains soil that is not contaminated but is not suitable for the GSA construction needs (e.g., not the appropriate type of soil for the building foundation).

(2) Upon purchasing the site, GSA analyzes the activities that will be required to remediate the contamination, restore the land to its original condition, and prepare the land for construction of a building in the future. GSA estimates the cost of activities to be the following:

- Removal of the contaminated soil - \$8 million
- Removal of the other uncontaminated soil - \$3 million
- Soil backfill to replace the removed contaminated soil - \$4 million
- Soil backfill to replace the removed uncontaminated soil - \$3 million

b. Environmental cleanup costs policy.

(1) When GSA accepts the contaminated land with the knowledge of the contamination and agrees to remediate the contamination, the total estimated cleanup cost is considered a GSA environmental liability. Per the policy statement in Attachment A, paragraph 1, GSA defines environmental cleanup costs as the costs of removing, containing, and/or disposing of (1) hazardous waste from property, (2) material and/or property that consists of hazardous waste at permanent or temporary closure, or shutdown of associated P&E (i.e., asset retirement and equipment disposal), or (3) asbestos (i.e., friable and non-friable). Cleanup costs may include characterization, decontamination, decommissioning, restoration, monitoring, closure, and post closure costs, and future surveys, studies, and assessments on the environmental site. Future surveys, studies, and assessments do not include initial survey costs to determine if a site has likely contamination because, as described below, it has not been determined that there is likely contamination. Therefore, the probable criterion of a future outflow has not been met. In addition, cleanup costs may include incremental direct costs of the remediation effort and costs of compensation and benefits for those employees who are expected to devote a significant amount of time directly to the remediation effort.

(2) Per the policy statement in Attachment A, paragraph 8, for land not associated with other P&E (i.e., buildings or equipment) and where the contamination is a GSA legally liable event, GSA will recognize a liability for the total estimated cleanup costs in the period when the contamination is identified. Land associated with other P&E will assume the useful life and the recognition methodology of the associated P&E.

c. Conclusion.

(1) Based on policy, GSA identifies the removal of contaminated soil and the soil backfill for the contaminated soil as environmental cleanup costs. Removal of the contaminated soil is classified as the disposal of environmental contamination. The backfill soil is considered an environmental cleanup restoration cost as it brings the parcel of land back to its original state. The backfill soil could be seen as a replacement cost (similar to replacing a cabinet that has been contaminated rather than restoring it), which would not be considered an environmental cleanup cost. However, given the nature of a parcel of land, backfilling soil would be considered restoring the parcel of land (i.e., the parcel, not the soil, is the asset) back to its intended use. This would be similar to resealing (i.e., restoring) a cabinet after a contamination is removed to return it to its original state.

(2) GSA will recognize the total estimated environmental cleanup costs for the removal of contaminated soil (\$8 million) and the backfill to replace the contaminated soil (\$4 million) as an environmental liability for the contaminated site.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Cleanup Cost Estimation	6800.xx - Future Funded Expenses	\$12,000,000	2995.xx - Environmental Liabilities Unfunded	\$12,000,000

(3) GSA will recognize the cost to remove (\$3 million) and backfill (\$3 million) the uncontaminated soil as an operating expense or new asset, based on the GSA capitalization policy, in the current period.

11. Contaminated asset replacement costs.

a. Background.

(1) GSA owns a Federal building which contains operating transformers. PCBs have leaked from the transformers and contaminated the surrounding cabinetry. GSA conducts an analysis comparing the estimated cost of remediating the contamination and the cost of removing, disposing of, and replacing the cabinetry. GSA made the following cost estimates for their analysis:

- Contamination remediation for the cabinetry - \$400,000
- Costs to remove and dispose of contaminated cabinetry - \$200,000
- Replacement of contaminated cabinetry with new cabinetry - \$150,000

(2) Based on their analysis, GSA decides that it is more cost effective to remove, dispose of, and replace the contaminated cabinetry rather than remediate the contamination of the existing cabinetry. Replacement of the cabinet cannot be deferred.

b. Environmental cleanup costs policy.

(1) Per the policy statement in Attachment A, paragraph 1, GSA defines environmental cleanup costs as the costs of removing, containing, and/or disposing of (1) hazardous waste from property, (2) material and/or property that consists of hazardous waste at permanent or temporary closure, or shutdown of associated P&E (i.e., asset retirement and equipment disposal), or (3) asbestos (i.e., friable and non-friable). Cleanup costs may include characterization, decontamination, decommissioning, restoration, monitoring, closure, and post closure costs, and future surveys, studies, and assessments on the environmental site. Future surveys, studies, and assessments do not include initial survey costs to determine if a site has likely contamination because (as described in more detail below) it has not been determined that there is likely contamination and therefore, the probable criterion of a future outflow has not been met. In addition, cleanup costs may include incremental direct costs of the remediation effort and costs of compensation and benefits for those employees who are expected to devote a significant amount of time directly to the remediation effort.

(2) Per the policy statement in Attachment A, paragraph 6, GSA will estimate environmental related cleanup costs for P&E (i.e., buildings, equipment, and land associated with other P&E) not requiring immediate cleanup due to contamination, but is anticipated to be cleaned prior to or at the end of the asset's useful life, including non-friable and/or contained friable asbestos. These cleanup costs, commonly referred to as environmental related asset retirement and equipment disposal costs, represent future environmental liabilities and are the incremental portion of the cost to be incurred for the removal and special handling of the contamination above the normal retirement cost of the asset.

c. Conclusion.

(1) Based on the policy and the GSA decision to replace the cabinetry instead of remediating the existing cabinetry, GSA will not recognize any costs for replacement of the cabinetry as an environmental cleanup cost. GSA will recognize the replacement cost of the cabinetry as an operating expense or new asset, based on the GSA capitalization policy, in the current period. However, GSA will recognize an environmental liability for the costs to remove and properly dispose of the contaminated cabinetry.

(2) GSA will recognize the \$200,000 in estimated costs to remove and dispose of the contaminated cabinetry as an environmental liability in the current period.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Cleanup Cost Estimation	6800.xx - Future Funded Expenses	\$200,000	2995.xx - Environmental Liabilities Unfunded	\$200,000

12. Non-friable and contained friable asbestos requiring future cleanup during asset retirement.

a. Background.

(1) GSA owns a Federal office building, which is known to have non-friable and contained friable asbestos in its walls. The asbestos is expected to remain non-friable or contained throughout the life of the asset but has incremental costs to prevent the non-friable or contained friable asbestos material from becoming uncontained friable asbestos. State and Federal laws do not require immediate cleanup of non-friable or friable asbestos if properly contained.

(2) GSA will have to remove and dispose of the asbestos appropriately at the point of retiring the building. GSA estimated the incremental costs to dispose of asbestos above the normal cost of disposal to be \$300,000.

b. Environmental cleanup costs policy. Per the policy statement in Attachment A, paragraph 6, GSA will estimate environmental related cleanup costs for P&E (i.e., buildings, equipment, and land associated with other P&E) not requiring immediate cleanup due to contamination, but is anticipated to be cleaned prior to or at the end of the asset's useful life, including non-friable and/or contained friable asbestos. These cleanup costs, commonly referred to as environmental related asset retirement and equipment disposal costs, represent future environmental liabilities and are the incremental portion of the cost to be incurred for the removal and special handling of the contamination above the normal retirement cost of the asset.

c. Conclusion. GSA will recognize a portion of the estimated cleanup cost associated with asbestos as an environmental liability in each period over the life of the asset. The total estimated cleanup cost of \$300,000 will be evenly distributed over the 30 years of accounting useful life to calculate the annual environmental liability amount. Below are several examples showing the amount of environmental liability to be recognized when the asset has: (1) a full remaining useful life (30 years); (2) some remaining accounting useful life (10 years); (3) no remaining accounting useful life (zero years); and, (4) the asset has some useful life remaining when it is permanently removed from service.

(1) Full remaining useful life. If the building is new and has the full 30 years of accounting useful life, GSA will recognize an environmental liability of \$10,000 each year for the next 30 years or until the building is removed from service (whichever comes first).

Journal Entries

Condition	Debit	Amount	Credit	Amount
Cleanup Cost Estimation	6800.xx - Future Funded Expenses	\$10,000	2995.xx - Environmental Liabilities Unfunded	\$10,000

(2) Some remaining useful life (10 years). If the building has been in service for 20 years at the time the contamination is identified and the remaining accounting useful life is 10 years, GSA will recognize an environmental liability for the useful life that has already expired (20 years) in the year the cleanup cost is estimated. The amount of this environmental liability equals \$200,000 (\$10,000 X 20 years). The remaining portion of environmental cleanup cost associated with the building's remaining accounting useful life of \$100,000 (\$10,000 X 10 years = \$100,000) will be recognized evenly over the remaining accounting useful life (\$10,000 per year).

Journal Entries

Condition	Debit	Amount	Credit	Amount
Cleanup Cost Estimation - initial recognition	6800.xx - Future Funded Expenses	\$200,000	2995.xx - Environmental Liabilities Unfunded	\$200,000
Cleanup Cost Estimation - future recognitions	6800.xx - Future Funded Expenses	\$10,000	2995.xx - Environmental Liabilities Unfunded	\$10,000

(3) *No remaining useful life (zero years).* If the building has no remaining accounting useful life, GSA will recognize the full cleanup cost as an environmental liability in the year the cleanup cost is estimated. In this case, GSA will recognize the total cleanup cost of \$300,000 as an environmental liability in the current period.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Cleanup Cost Estimation	6800.xx - Future Funded Expenses	\$300,000	2995.xx - Environmental Liabilities Unfunded	\$300,000

13. Uncontained friable asbestos requiring immediate cleanup.

a. Background.

(1) GSA owns a courthouse that contains uncontained friable asbestos that was disturbed in a recent minor renovation. The exposure of uncontained friable asbestos is significant enough to pose an immediate threat and requires immediate cleanup. This contamination is required by environmental laws or regulations to be remediated or contained in the current period and cannot be deferred.

(2) The estimated total cost to fully remediate the uncontained friable asbestos contaminated is \$200,000.

b. *Environmental cleanup costs policy.* Per the policy statement in Attachment A, paragraph 6, GSA will estimate environmental related cleanup costs for P&E (i.e., buildings, equipment, and land associated with other P&E) requiring immediate cleanup due to contamination, including friable asbestos that is not contained. Equipment that is attached to a building will be treated as part of the building for cleanup cost recognition purposes. The estimated cleanup costs will be recognized in full, as an environmental liability, in the period the contamination is identified.

c. Conclusion.

(1) GSA will recognize the full \$200,000 environmental liability in the current period.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Cleanup Cost Estimation	6800.xx - Future Funded Expenses	\$200,000	2995.xx - Environmental Liabilities Unfunded	\$200,000

(2) Subsequent to the recognition of the environmental liability, GSA contracts a vendor to complete the cleanup, and it is completed. GSA incurs the full \$200,000 cost of remediation on the site. In the period when cleanup costs are incurred and GSA determines or is notified that all contaminations have been removed, GSA will recognize an operating expense in the amount of \$200,000 for the amount of costs incurred and reduce the liability by the full \$200,000 previously recognized.

Journal Entries

Condition	Debit	Amount	Credit	Amount
Reduction in Liability	2995.xx - Environmental Liabilities Unfunded	\$200,000	6800.xx - Future Funded Expenses	\$200,000

Condition	Debit	Amount	Credit	Amount
Incurred Cleanup Cost	6100.xx - Operating Expenses/Program Costs	\$200,000	1010.xx - Disbursements/Cash	\$200,000
	4610.xx Allotments - Realized Resources	\$200,000	4902.xx - Delivered Orders - Obligations, Paid	\$200,000

Attachment D

Glossary of Accounting and Environmental Related Cleanup Costs Terms

1. Accounting Useful Life. The operating life assigned based on the type of asset with the purpose of accounting for depreciation and amortization. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 6, paragraph 35.
2. Closure Costs. Cleanup costs may include, but are not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and post closure costs. In accordance with SFFAS 6, paragraph 87.
3. Costs Incurred. The amount of goods delivered or services rendered. In accordance with Federal Accounting Standards Advisory Board (FASAB) Technical Release No. 2.
4. Environmental Cleanup. Costs of removing, containing, and/or disposing of hazardous waste from property, or material and/or property that consists of hazardous waste at a permanent or temporary closure or shutdown of associated P&E. Cleanup may include, but is not limited to, decontamination, decommissioning, site restoration, site monitoring, closure, and post closure costs. Cleanup costs also include costs of compensation and benefits for those employees who are expected to devote a significant amount of time directly to the remediation effort. In accordance with SFFAS 6, paragraphs 85 and 87.
5. Environmental Liability. Future outflows or other sacrifices of resources for environmental related cleanup costs resulting from past events, e.g., contamination. The following conditions must be present for recognition: 1) contamination is present or likely to be present; 2) General Services Administration (GSA) is legally liable for the environmental related cleanup of the contamination; and, 3) future outflows or other sacrifices of resources for environmental related cleanup are probable and reasonably estimable. In accordance with SFFAS 6, paragraph 91 and FASAB Technical Release No. 2.
6. Environmental Site. An asset or combination of assets, with a discrete location for which there is an environmental issue that requires evaluation. Environmental sites must be reviewed to determine if future environmental work required at the site meets the definition of environmental liability. In accordance with FASAB Technical Release No. 2.
7. Equipment. An article of personal property that can be applied to its intended use without merging, losing identity, or being immediately consumed. Shelving and filing cabinets used in record depositories for purposes of record storage are not considered operating or administrative equipment; rather, in this situation, shelving is considered part of real property, in accordance with GSA accounting policy and procedures. FASAB standards also define equipment in Technical Release No. 11, and SFFAS 6. FASAB Technical Release No. 11 defines equipment as any tangible, nonexpendable, personal property having a useful life of more than one

year and an acquisition cost of \$5,000 or more per unit. SFFAS 6 defines equipment similarly to P&E as a tangible asset that has an estimated life of two or more years, is not intended for sale in the ordinary course of business, and is intended to be used or available for use by the entity.

8. Friable Asbestos. Asbestos that, when dry, can be crumbled, pulverized, or reduced to powder by hand pressure and if not contained poses significant and immediate risk to those who come into contact with it. In accordance with FASAB Technical Bulletin 2006-1, Appendix D.

9. Property and Equipment (P&E). Any property and equipment, including land acquired for or in connection with other P&E, used in providing goods or services. P&E generally has one or more of the following characteristics: (1) it could be used for alternative purposes but is used to produce goods or service, or to support the mission of the entity; (2) it is used in business type activities; or, (3) it is used by entities in activities whose costs can be compared to those of other entities performing similar activities. In accordance with SFFAS 6, paragraph 23.

10. Government Acknowledged Event (GAE). All costs associated with contaminant clean-up that was caused by a non-Federal entity or a natural disaster. GAEs are non-transaction based events where GSA has no legal liability, but could have an interest or responsibility to provide for employee's safety, the public's general welfare, or the environment and responds to the event after obtaining budgetary approval. In accordance with SFFAS 5, paragraph 30.

11. GSA Legally Liable Event. Non-transaction based event where GSA is legally required to cleanup environmental contamination based on a statute, regulation, or court decision, or where the agency has agreed, in an interagency agreement, settlement agreement, or similar legally binding document (e.g., purchase contracts, memorandum of understandings). This may include instances such as damage to a non-Federal property caused by GSA operations, damage to a GSA property resulting from Federal operations, or contamination which GSA is otherwise legally liable to cleanup under regulatory requirements. In accordance with SFFAS 5, paragraph 27; and FASAB Technical Release No. 2.

12. Hazardous Material or Substance. Any substance or chemical, which is a "health hazard" or "physical hazard," including: chemicals which are carcinogens, toxic agents, irritants, corrosives, sensitizers; agents which act on the hematopoietic system; agents which damage the lungs, skin, eyes, or mucous membranes; chemicals which are combustible, explosive, flammable, oxidizers, pyrophorics, unstable-reactive or water-reactive; and chemicals which in the course of normal handling, use, or storage may produce or release dusts, gases, fumes, vapors, mists or smoke which may have any of the previously mentioned characteristics. In accordance with Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) Section 101.

13. Hazardous Waste. A solid, liquid, or gaseous waste, or combination of these wastes, which because of its quantity, concentration, or physical, chemical, or infectious characteristics, may cause or significantly contribute to an increase in mortality or an increase in serious irreversible, or incapacitating reversible, illness or pose a substantial present or potential threat to human health or the environment when improperly treated, stored, transported, disposed of, or otherwise managed. Examples of hazardous materials encountered by GSA include asbestos (i.e., friable and non-friable), lead based paint, lead pipes, and others as identified by GSA management. In accordance with SFFAS 6, paragraph 86.

14. Immediate Cleanup. Contamination that the GSA Environmental Division (PMAB) has determined to pose a substantial present hazard to human health or the environment and is required by environmental laws or regulations to be remediated or contained and the cleanup effort cannot be deferred and costs must be recognized in the current period.

15. Incremental Cleanup. Removal and special handling of contamination above the normal retirement cost of the asset.

16. Legally Liable. Any duty, obligation or responsibility established by a statute, regulation, or court decision, or where the agency has agreed, in an interagency agreement, settlement agreement, or similar legally binding document (e.g., purchase contracts, memorandum of understandings), to assume responsibility for cleanup costs. Legal liability should be determined in consultation with the entity's legal counsel. In accordance with FASAB Technical Release No. 2.

17. Liability. For Federal financial accounting purposes, a future outflow or other sacrifice of resources (e.g., costs) as a result of past events or transactions for which a Federal entity is responsible. This definition is derived from Generally Accepted Accounting Principles (GAAP) and does not imply or infer legal liability. In accordance with SFFAS 5, paragraph 19.

18. Non-friable Asbestos. Asbestos that, when dry, cannot be crumbled, pulverized, or reduced to powder by hand pressure and does not pose an immediate health risk as long as the asbestos is not disturbed. Unless explicitly identified as "indefinite non-friable asbestos", the term "non-friable asbestos" refers to non-friable asbestos that can become friable upon disturbance or damage. In accordance with FASAB Technical Bulletin 2006-1, Appendix D.

19. Ongoing Operations and Maintenance Cleanup. Environmental cleanup resulting from an operation or activity that generates hazardous waste, which is managed as part of routine maintenance and day-to-day operations (e.g., disposing of spent bullets and lead dust in a firing range or routine changes of equipment fluids). Any contamination created by the operation or activity is routinely cleaned up as it is created. In accordance with FASAB Technical Release No. 11, paragraphs 13 and 14.

20. Personal Property. Property or assets of a temporary nature or with movable characteristics except real property. Personal property consists of equipment that is classified as either operating equipment or administrative equipment. In accordance with GSA policy and procedures.

21. Permanent Removal from Service. The termination of an asset's use, accompanied by documented evidence of management's decision to permanently remove the asset from service. In accordance with FASAB Technical Release No. 14, paragraph 10.

22. Probable. Future event or events (e.g., future outflow for environmental related cleanup costs) are more likely than not to occur. This "more likely than not to occur" definition for probable differs from that related to contingencies associated with pending or threatened litigation and unasserted claims. In this situation, probable refers to future events that are likely to occur because the concept of probability is imprecise and difficult to apply with respect to most legal matters. In accordance with SFFAS 6, Note 67.

23. Reasonably Estimable. A future outflow or other sacrifice of resources is reliably quantifiable in monetary terms. In accordance with FASAB Technical Release No. 2.

24. Reasonably Possible. A future outflow or other sacrifice of resources (e.g., costs) is more than remote but less than probable. In accordance with SFFAS 5, paragraph 36.

25. Replacement Costs. The cost, or estimated cost, to purchase a new asset or portion of an asset to replace a contaminated asset or portion of an asset. Replacement costs should not be recognized as an environmental liability. In accordance with SFFAS 6, paragraph 87.

26. Restoration Costs. The cost, or estimated cost, of returning a contaminated asset back to its original state or condition. Restoration costs are considered environmental liabilities. In accordance with SFFAS 6, paragraph 87.

27. Remote. A future outflow or other sacrifice of resources (e.g., costs) is slight. In accordance with SFFAS 5, paragraph 36.